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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE  
SECURITY OF THE UNITED STATES

1. Long-range Implications of the CFM.

a. General.

In retrospect, the recent meeting of the CFM may be regarded as an important milestone in the postwar relations of the Western Powers and the USSR. Although it failed to achieve much in the way of specific results and had in itself no material effect upon the relative security position of the USSR and the Western Powers, it re-established four-power contact between East and West and relieved somewhat a dangerous state of tension. It served to bring into clearer relief a number of the basic factors underlying the tactics of the adversaries and to provide fruitful grounds for speculation concerning the issues which will become most critical in the period ahead. In this period, internal developments within the respective spheres of influence promise to become the major concern of statesmen and the determining factors in such negotiations and discussions as may take place between the leaders of the opposing camps.

The discussions at Paris showed conclusively that there is no basis for a compromise agreement between the Western Powers and the USSR on a united Germany or a German peace treaty. The divergence in aims and objectives is too wide. No settlement appears possible in any future CFM meeting until one side or the other, either through the compulsion of events beyond their control or in consequence of a

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deliberate change in policy, decides to give way. In the meantime, the division of Germany is the accepted fact, and short-term policy will develop from this fact.

Prior to the opening of the CFM it was possible to advance many cogent reasons why the USSR might believe it advantageous substantially to meet Western terms in order to obtain an agreement. It could hope by so doing to impede US and European Rearmament, prevent or delay the establishment of a West German State in which it had no voice, and gamble on ultimately bringing a united Germany into the Soviet orbit by outbidding the West for a political and economic rapprochement rather than by direct Communist subversion from within. Whether or not the USSR was prepared to aim at this objective when it agreed to lift the blockade and reconvene the CFM remains conjectural. A good case can be made for the contention, however, that, whatever the degree of concessions the USSR may actually have had in mind, developments subsequent to the New York conversations -- such as the East German elections, increasing unrest in the satellites, and the rapid adoption of the West German constitution -- led to the decision that it could not safely take steps that might relax its control over Eastern Germany or alienate its satellites.

It now seems reasonably clear that, by the time the CFM met, the USSR had come to the conclusion that the risks involved in agreeing to a united Germany on anything like Western terms outweighed the advantages

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that might be derived from a settlement. Another factor also may have had a determining influence on this conclusion. The rapidly developing signs of a US depression and of a serious deterioration in the British economic position, may have led the USSR to believe that by maintaining the status quo and relaxing tension somewhat, it could substantially achieve the advantages of a settlement without the attendant risks. It, therefore, chose to maintain its position in Eastern Germany and in Berlin, keep alive the fiction of a possible agreement in future CFM meetings, open the way to increased East-West trade and await the opportunities presented to it by an anticipated economic crisis in the West.

In part, Soviet tactics in the CFM may be interpreted as a sign of current weakness. The USSR did not consider its position strong enough to permit it to develop a new political offensive to win over the Germans. The outcome of the meeting likewise lends further confirmation to the estimate that the USSR is not in a position to, and has no immediate intention of, deliberately resorting to military action to gain its objectives in Western Europe.

b. Problems Facing the USSR.

The problems which are restricting Soviet freedom of action have recently appeared in clearer outline and in their larger significance. There is accumulating evidence that the Soviet position in Eastern Europe is far from secure. The basic factor in this insecurity is the force

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of Nationalism, which appears to be becoming more rather than less of a problem for the USSR. The USSR has not yet succeeded in reconciling Nationalism with its design of creating an international Communist dictatorship directed from Moscow. In attempting to impose this international dictatorship, the USSR must overcome very basic forces: (1) the national sentiment of the people rooted deep in the historical past and (2) the psychological affects of the possession of power upon Communists who come to positions of leadership in non-Soviet states; i.e., they tend to aim at being masters in their own Communist houses.

There are many indications that where the Government of a country has completely passed into the hands of the local Communist party, paradoxical as it may seem, there are limitations upon the exercise of direct Soviet control upon this Communist government that did not exist with respect to the local Communist party before it came to power. The control of the satellite states which have emerged since the end of the war is presenting a different problem from the control of international Communism as represented by local Communist parties that are in revolutionary opposition to a national government or aspire to political power. Furthermore, the USSR is universally committed to a policy of supporting national independence against Western Imperialism. It can use a threat of force, as in Czechoslovakia, to bring the local Communist party to power over its adversaries. It cannot consistently

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employ extreme political pressures or resort to actual force to impose its will upon a sovereign Communist state, without undermining its position as the protector of national independence and exposing itself to the world as an imperialistic power. It must rely, therefore, on the loyalty of the local Communist leaders themselves and that is where signs of weakness continue to develop in the satellites.

A closer examination of the formation of the Cominform suggests that one of the purposes of this organization may have been to conceal rather than to implement direct Soviet control. Its headquarters were established outside the USSR. The Cominform rather than the USSR launched the initial attack upon Tito after he failed to appear before a meeting of his "equals" to defend himself against the charges of "nationalism." In short, the formation of the Cominform may well reflect an admission by the USSR that, without openly revealing the imperialist aspects of Stalinism, it cannot surely impose its will directly upon other Communist States. It must resort to indirection and attempt to preserve the fiction of an association of equals. This method was not successful in dealing with Tito and it has not succeeded in eliminating nationalist "deviations" in the other satellite states.

The basic problem assumes increased importance as the Chinese Communists prepare to establish a new national Government in China. The fact that the satellites have not yet accepted the concept of a

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Soviet international dictatorship will have an important bearing upon Soviet relations with the emerging Communist state in China. Conversely, the need to maintain the allegiance of the Chinese Communists places restrictions upon the courses of action open to the USSR in dealing with recalcitrant European satellites. The USSR is handicapped in dealing with this problem in that its theoreticians have not produced a convincing ideological foundation upon which to reconcile nationalism with a Soviet international dictatorship. Already the Yugoslavs have advanced the concept of a "commonwealth" of Communist nations as opposed to an international dictatorship exercised by the USSR.

These limitations on the exercise of Soviet control over the satellites and the persistence of an important element of national "deviationism" among the local Communist leaders most certainly restricted Soviet freedom of action in the CFM. The USSR could not make a long-term play for a united Germany partly because its control over the satellites was not strong enough to risk the antagonisms that such a policy would arouse in Poland and Czechoslovakia. Before it can make this play, it must eliminate, if it can, all traces of "deviationism" among the satellite Communist leaders.

The second basic weakness in the Soviet position at the CFM was economic. Its own economic development has not been proceeding as

rapidly as desired, and the satellite economies were in some instances actually deteriorating. The satellites have recognized that they have suffered substantially from their economic orientation towards the USSR and this has further stimulated nationalist "deviationism." The USSR thus had need of a relaxation in tension that would facilitate increasing East-West trade. It has now given the satellites a freer hand in making what economic deals they can with the West. The USSR is clearly counting on a US depression and a world-wide buyer's market to force the Western Powers and West Germany to seek a market for their surplus production in the East.

Nationalism and economic weaknesses, therefore, stand out at the moment and basic deterrents to direct Soviet aggression either political or military. Soviet leaders in the period ahead will undoubtedly concentrate on finding solutions to these problems. The problem of nationalism is of particular significance, if, as it appears, their long term objectives envisage complete Soviet domination of a Communist world. However, if they fail to resolve it in terms of a Soviet international dictatorship they have an unpalatable alternative solution in terms of an alliance of states bound closely together by the common bond of Communism and an antipathy toward the non-Communist world. In the meantime, they can take comfort in the hope that the serious problems facing their adversaries in the West may open up to them opportunities that are not now clearly present or that they are not strong enough to create.

c. The Problems of the Western Powers

It was generally assumed that the Western Powers entered the CFM in a stronger bargaining position than ever before. On the surface this was true. They had made substantial progress in political, military and economic consolidation in Western Europe. Confidence throughout Europe had generally replaced uncertainty and despair. At the same time, the USSR was obviously somewhat on the defensive in consequence of weaknesses within its own sphere of influence.

This advantage, however, was only momentary -- a matter of time rather than of fundamentals. The basic economic difficulties facing the Western Powers had not been solved and the problems of a revived Germany were in the offing.

(1) The Economic Problem.

The fundamental economic weaknesses in the Western position -- not in terms of military potential but of healthy international economic relationship -- have suddenly burst into full view. It has always been questionable whether the ERP program would succeed in restoring the viability of the economies of the UK and Western Europe in terms of a prewar standard of living. The sudden dollar crisis of the UK, following so quickly upon only a moderate business recession in the US and a general shift from a seller's to a buyer's market, serves to emphasize the magnitude of the problems still facing the Western Powers in their efforts to recreate a healthy international

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economy. These problems derive primarily from the operation of long-term forces within Western society which have increasingly affected the stability both of the internal structure of individual states and the 19th Century system of international economic relationships. World Wars I and II merely accelerated a basic trend towards disequilibrium. They further reduced the invisible income of the UK and the colonial powers of Western Europe, dislocated established patterns of trade, and accelerated changes in the competitive positions and economic structures of the various states. The dollar shortage and the patent impossibility of maintaining free convertibility of currencies are merely surface manifestations of basic disequilibria for which ERP is a palliative and not a cure.

The stupendous task of creating a new and workable equilibrium, with all its ramifications on the internal politics of the states concerned, stands out, therefore, as basically the most important factor in US security. The development of the US recession into a depression and its extension to Western Europe would greatly increase the difficulties of this task. It would restore the subversive capabilities of local Communist parties in Western Europe, impair Western rearmament programs, accentuate the divergent economic interests of the Western Powers, and weaken their hand in dealing with the USSR.

Recent Soviet propaganda indicates clearly that the exploitation

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of an expected crisis in the capitalist world is to be one of the keystones of Soviet policy in the immediate future. The volume of material dealing with the most detailed aspects of the problems of ERP, pound-dollar relations, and competition for markets has been increasing steadily and shows a clear conception of all the basic elements in the economic problems of the Western Powers. Thus, in spite of its defensive position at the opening of the CFM, the USSR can now hope that disruptive forces within the capitalist world will operate in its favor while it attempts to strengthen its position within its own orbit in Europe and the Far East.

(2) The Problem of Germany.

As they leave the CFM behind them, the Western Powers are also faced with the difficult problem of directing and controlling an emerging West German State. A West German State probably presents them with even greater difficulties over the longer term than would a united Germany. The problem of unification is added to those complex factors inherent in the German problem as a whole which seriously complicated it in terms of the ultimate objective of a democratic Germany oriented towards the West, but not the master of Europe.

Although the West German State will almost inevitably be drawn into the Western camp, the USSR over a period of time will be able to

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offer it many inducements which the Western Powers will have difficulty in counteracting. Likewise, the Western Powers will have to reconcile serious differences among themselves in determining the position of the new German state in the Western European system.

While control of the West German State is an advantage for the Western Powers in terms of the power rivalry with the USSR, over a period of time the frictions inevitably arising out of such control may play into the hands of the USSR. The fundamental objectives of the new West German Government will be to establish its authority on a firm basis and to unify Germany. The attainment of the first of these objectives will be difficult if the new State starts out under deteriorating rather than improving economic conditions. If the new government successfully establishes its authority it will find itself in an increasingly strong position to attempt to settle the German problem on its own terms by playing off the USSR against the Western Powers.

In meeting the demands of the Germans for unity, the USSR appears to have the preponderance of the trumps, if it is willing to sacrifice its control over Eastern Germany and to play its cards on a traditional power-policy basis. The USSR can offer East Germany to the new state in return for a political alliance with a united Germany. It can sweeten the offer by revising the Oder-Neisse boundary in Germany's

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favor. It can offer a potentially broad market for the products of West-German industry in contrast to an increasing denial of markets by the West. If the USSR made such an arrangement with the Germans it would obviously be giving up its immediate postwar program of trying to get control of Germany by extending to West Germany the Communist mechanism already established in East Germany. It would be a return to the Rapallo policy, of a political and economic collaboration, although within the context of a different power equilibrium. The USSR would probably not be in a position safely to adopt such a policy until either it had established a firmer control than it has now over its satellites, or until the prospective German state had become sufficiently strong to defy, in combination with the USSR, both the Western Powers and the satellites.

The Western Powers would have great difficulty in meeting such a Soviet approach. A united Germany is not theirs to give. Their main bulwarks of support will be the present German hatred of the USSR, the basic economic dependence of Germany upon the West, and the cultural ties of Germany with Western Europe. But these may be counteracted over a period of time by the frictions arising out of Allied control and the increasing freedom of action which the West German State will acquire as it gains in strength and independence. The Germans would enter into a deal with the USSR only if presented as an alliance between Sovereign States and not as a Communist satellite relationship.

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Although each side might distrust the ultimate objectives of the other, each would probably consider itself strong enough eventually to counteract them. In spite of their initial hostility to the USSR, therefore, there will be a strong tendency for the Germans to subordinate their dislike of Communism to the larger consideration that only through an alliance with the USSR can they regain their place in the sun as a united German nation.

The only inducement at the disposal of the Western Powers as an alternative to German unification is to offer a West German State an important place in the Western Union. Here, however, the conflict of interests among the Western Powers and between the Western Powers and Germany will make it difficult in the long run to offer the Germans a position that would in any way compensate for the abandonment of German unification. British fears of German competition, French concern with security, and US resistance to footing the bills in Germany stand in the way of a common policy satisfactory both to the Western Powers and to the Germans. Basically, the Western Powers probably cannot satisfy a resurgent West German State short of permitting it to become the dominant power in the Western Union. The long-term tendencies, therefore, appear to point toward the alternatives of a united Germany allied with the USSR or a Western Union dominated by a West German State.

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(3) The Problem of Berlin.

In the meantime, the problem of Berlin remains a source of friction between the Western Powers and the USSR. Berlin continues to be a vulnerable spot in the Western position and at the same time a serious obstacle to the attainment of Soviet political objectives throughout Germany. Although the Western Powers may be in Berlin by right of conquest and by agreement, the division of Germany and the establishment of a West German State under exclusive Western Power control is likely to make the problem of maintaining a Western political outpost in the midst of Soviet-controlled territory an increasingly difficult one. The USSR cannot help but regard it as a dangerous observation post within its legitimate sphere and as a major obstacle to the consolidation of Eastern Germany as an offset to the West German State. While the USSR will be under constant compulsion to try to liquidate the situation as long as Germany remains divided, it is not likely to reinstate the blockade in the near future.

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2. UK-Labor Government.

Sir Stafford Cripps, by stating that positive new policies were needed, tacitly admitted that the Labor Government's economic policies had failed to maintain the UK's gold reserves. The question is accordingly germane whether the Labor Government retains the confidence of the country. It seems reasonably certain that a majority of the electorate is satisfied with the Government's handling of those matters that directly touch people's lives: full employment, the cost of living, the welfare state doctrine of "fair shares for all." The problem of the UK gold reserves does not belong to this category of interests, even though its consequences will ultimately be felt in things which do closely affect people's lives. The actions of the Government with respect to this recondite and highly technical problem are not now a matter of electoral confidence. The Government itself, however, is aware of the fundamental significance of the problem and of its relation to the political position of Labor. If the Cabinet is in complete agreement about a solution, it is probable that the electorate will repose enough confidence in the Government to permit it to take positive action. If, however, the Cabinet is fundamentally split on the issue and cannot produce a clear set of proposals which can be convincingly explained to its supporters, the Government will be obliged

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to draw heavily on its reserve of public confidence and its area of maneuverability in respect to economic and financial policy will be dangerously reduced. Until this point is clarified, the present Government must be considered stable, and national sentiment must be regarded as favoring a Labor rather than a Conservative handling of the problem.

3. Near East.

There has been no significant change in the general situation in the Near and Middle East, nor, with the possible exception of Iran, does there appear to be any immediate change in the making.

In Iran, while there is no ground for asserting that the broad US security interest is being endangered, a situation is developing that may complicate the handling of short-term aspects of that interest. The continuing effort of the Shah to consolidate the control of the military and gendarmerie in his hands has raised the bugaboo of a dictatorial regime. His undue preoccupation with military affairs has been accompanied by an indifference to implementing vigorously the agreed economic development program. Living conditions, already poor, are still further deteriorating. A wheat shortage is at hand. Important merchant and religious circles are using the economic decline as a basis for protesting the concentration of power in court-army hands. Concurrently, the Shah and high Iranian officials are flatly stating

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their intense dissatisfaction with the amount of aid which the US has proposed for Iran, comparing it unfavorably with the Turkish allocation. This mixture of economic difficulty and internal political intrigue represents nothing unusual in Iran. Until firm evidence appears that it is taking a fixed form unfavorable to US interests, it should be regarded simply as a characteristically complicating factor in the conduct of US-Iranian relations.

The several Arab-Israeli discussions are either recessed or making little progress. The Israelis continue to be well situated to gain by force their territorial aims whenever they consider it advisable to present the Security Council with another fait accompli. The Arab States, now showing little or no resemblance to a united front, are badly placed to resist a development of this kind.

In Greece, guerrilla activity continues and there have been no further peace developments. There have been indications that Yugoslavia may be preparing to close its borders to the guerrillas, but it is not considered that such action would seriously reduce guerrilla capabilities or lessen the Greek military problem, at least for the present time. Political and economic problems are expanding. The death of Sophoulis, though it made no immediate difference, will have a generally weakening effect on the coalition because there is no popular figure

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to replace him and no skilled stabilizing influence in the cabinet to restrain political factionalism. Meanwhile, labor troubles are in the offing, and the devices for controlling inflation are coming to a point of diminishing returns.

In the region generally, the US security interest will continue to be difficult and expensive to maintain and will remain subject to a variety of unrelated local shocks.

4. Far East.

(a) Japan: the relation between the cost of Japan to the US, the economic revival of Japan, and the position of Japan with respect to the aggressive Communism of the Asiatic mainland is becoming increasingly difficult to resolve in ways favorable to the US interest. The SCAP-ordered economic stabilization program, which includes the requirement of a balanced budget, is producing contradictory results. The value of a high exchange rate was countered by restrictions on industrial subsidies and by checking further Reconstruction Finance Bank loans. It is to be expected that the general financial retrenchment, high lighted by dismissals of unessential employees, will produce serious unemployment and a loss in domestic purchasing power. The product of this development is increasing labor unrest, marked by trade union militancy under Communist direction, and conservative pressure for severe anti-Communist measures. A search for ways to avoid

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the build up of a sharp Right-Left conflict reveals small ground for hope.

(b) China: military operations, though still required in the south, northwest, and west, are becoming increasingly peripheral to the main issue in China, which is the establishment of a new central government, the development of successfully operating local political authorities, and the regulation of external relations. The Chinese Communist Party is preparing to convene a Political Consultative Conference and the indications are that a National Government will emerge, ostensibly a coalition of Communists, Democratic Leaguers, and the Kuomintang Revolutionary Committee, but completely dominated by the Communist Party. The problem of local political authority is more difficult to solve, not because the Communists lack the will or the strength, but because economic factors are recalcitrant. Poor harvests are threatening to create food shortages. Shanghai and other commercial centers may well be paralyzed economically. Technicians and local administrators are in short supply. Possible solutions of these difficulties are linked with foreign trade and foreign trade is in turn dependent upon the character of Communist China's relations with the US, Western Europe, and the USSR. For the next several months, the Communist regime will be involved in trying to maintain an equilibrium between its admitted commitments to international Communism and its obvious need to

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find a commercial modus vivendi with the West.

(c) The Republican Government of Indonesia has reestablished itself in Jogjakarta without serious incident. Its ability to maintain order, though still subject to reservations, seems better than it did eight months ago. It is probable, however, that adroit political maneuvering will be needed for Sukarno to pull together again the threads of political control which he previously held, and to secure Cabinet and Parliamentary support for the agreements he has entered into with the Dutch.

(d) The situation in Indochina is poised on the question of whether the French-supported government of Bao Dai will be able to draw away the non-Communist nationalist elements that have hitherto seen their hope in the revolutionary government of Ho Chi Minh. It is difficult to see how Bao Dai can win popular support and build up an effective representative nationalist government unless the French are willing to grant real sovereignty to the newly created Vietnam state. Conversely, there are few present signs that the French are prepared to entertain so final a solution. The forces in French political life that resist a fundamental transfer of authority are strong and the issue, as far as the French Assembly is concerned, is confused by other considerations. Meanwhile, the French military position in Indochina is continuing to deteriorate, and its maintenance is a serious drain on French resources.

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5. Latin America.

There were no significant developments in the area during the month directly affecting US-USSR relationships; two events, however, bear on broad US security interests. They are the signing of the Argentine-UK agreement and the attempted armed landing in the Dominican Republic.

In concluding the agreement with Britain, Argentina reacted to conditions which apply through much of Latin America — scarcity of dollars, dependence on foreign sources for many necessities, and a lessening demand for Latin American exports. This particular agreement is of importance to the US, not only because of its possible adverse effect on US business interests in, and trade with Argentina, but because of the very real danger that this type of bilateral instrument may become a pattern for similar agreements and that the US policy of restoring multilateral trade may suffer a definite setback.

The size of the forces involved in the recent effort against the Dominican Republic's dictator-president Trujillo have not yet been determined. It appears, however, that the Caribbean Legion was committed to the undertaking, and Guatemalan support for the move is well established. It is obvious that the US security interest in Hemisphere solidarity is not served by constant strife in the Caribbean even though there is no question that all the countries involved did support the US in a US-USSR conflict.

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6. International Labor Organizations.

The decision of thirty-nine Western labor organizations to form a new International has substantially redressed the balance of power between Communist and non-Communist labor forces to the advantage of the West. It ensures that the influence of the Sovietized WFTU in Western Europe and elsewhere will be counterbalanced with increasing effectiveness in coming months. An immediate start on the organization of the new International was made possible by AFL and CIO agreement to work together in international labor councils and was stimulated by pressure from the small power labor organizations of Western Europe. The substantial progress thus achieved, however, will reach fruition only if the Western trade unions can resolve the major organizational problems that are still at issue between them.

Meanwhile, the WFTU has been converted into a more aggressive and effective instrument of Soviet policy. In rapid succession the USSR has restaffed the WFTU with "hard core" Communists, centralized WFTU control over national centers, strengthened WFTU finances, and speeded the organization of international "trade departments" which will link the WFTU supporters within each industry.

While seeking to regain influence in the West by capturing left-wing Western labor unions, the WFTU will devote its major efforts to organizing the huge labor reserves of the colonial and underdeveloped areas.

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This is apparently in line with accelerated Soviet interest in penetrating this area. To counteract the recent creation of the anti-Soviet Asian Federation of Labor, the WFTU will set up its own Pan-Asiatic Labor Federation this fall under the leadership of the Communist-led All-China Federation of Labor. It will also look to other Communist front organizations such as the World Federation of Democratic Youth and the International Democratic Womens Federation for substantial aid in extending Communist influence among the unorganized labor forces of Southeast Asia and Africa.